



## IMMEDIATE RELEASE CALIAN REPORTS SECOND QUARTER RESULTS

(All amounts in this release are in Canadian Dollars)

**Ottawa, Ontario – May 9, 2018:** Calian Group Ltd. ([TSX.CGY](https://www.tsx.com/stocks/cgy)) today released unaudited results for the second quarter ended March 31, 2018.

The Company reported revenues for the quarter of \$77.1 million, its highest in history representing a 15% increase from the \$67.1 million reported in the same quarter of the previous year. For the six-month period ended March 31, 2018 the Company reported revenues of \$152.9 million, a 13% increase compared to revenues of \$135.8 million in the prior year.

EBITDA<sup>(1)</sup> for the second quarter was \$6.0 million, a 3% decrease compared to \$6.2 million in the same quarter of the previous year and for the six-month period ended March 31, 2018, EBITDA<sup>(1)</sup> was \$12.4 million, a 9% increase compared to \$11.4 million in the prior year.

Net profit for the second quarter was \$3.9 million or \$0.50 per share basic and diluted, an 8% decrease compared to \$4.2 million or \$0.55 per share basic and diluted in the same quarter of the previous year. On a year-to-date basis, net profit was \$7.9 million or \$1.03 per share basic and \$1.02 per share diluted, an increase of 5% compared to net profit of \$7.6 million or \$1.00 per share basic and diluted in the previous six-month period.

*See caution regarding non-GAAP measures at the end of this press release*

"Our strong performance this quarter demonstrates Calian's ability to provide best in class services throughout our service offerings with customers that value our consistent level of quality and continue to trust Calian with their initiatives", stated Jacqueline Gauthier, CFO."

"I am extremely proud of the team's efforts this quarter with all service lines contributing to our success. During my absence, in addition to focusing on the day to day delivery efforts, management continued to focus and execute on Calian's key strategic initiatives. I'm currently staying informed by participating in meetings remotely in support of the team's continued progress towards organic and acquisitive growth", stated Ford.

"I am also excited by the recent contract signings in support of our customer retention and customer diversification pillars of our growth strategy. The Royal Canadian Air Force \$20 million contract maintains a long term valued relationship in the air worthiness domain. For our IT services, the Canada Revenue Agency as well as Shared Service Canada signings are net new customers in our public sector market", continued Ford.

Traditional markets in which Calian operates are stable and management expects organic revenue and earnings growth in most or all of its service lines through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2018 to be in the range of \$290 million to \$310 million, net profit in the range of \$1.90 to \$2.20 per share.

**Caution regarding non-GAAP measures:**

This press release is based on reported earnings in accordance with IFRS. Reference to generally accepted accounting principles (GAAP) means IFRS, unless indicated otherwise. This press release is also based on non-GAAP financial measures including EBITDA, adjusted net profit and adjusted net profit per share. These non-GAAP measures are mainly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by IFRS; therefore, others using these terms may calculate them differently. Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of our financial reports with enhanced understanding of our results and related trends and increases transparency and clarity into the core results of our business. Refer to the MD&A for definitions of these metrics and reconciliations to the most comparable IFRS measures.

**About Calian**

Calian employs over 2,900 people with offices and projects that span Canada, U.S. and international markets. The company's capabilities are diverse with services delivered through two divisions. The Business and Technology Services (BTS) Division is headquartered in Ottawa and includes the provision of business and technology services and solutions to industry, public and government in the health, training, engineering and IT services domains. Calian's Systems Engineering Division (SED) located in Saskatoon plans, designs and implements complex communication systems for many of the world's space agencies and leading satellite manufacturers and operators. SED also provides contract manufacturing services for both private sector and military customers in North America.

For further information, please visit our website at [www.calian.com](http://www.calian.com), or contact us at [ir@calian.com](mailto:ir@calian.com)

Kevin Ford  
President and Chief Executive Officer  
613-599-8600

Jacqueline Gauthier  
Chief Financial Officer  
613-599-8600

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**DISCLAIMER**

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Calian to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; and the impact of consolidations in the business services industry. Additional risks and uncertainties affecting Calian can be found in Management's Discussion and Analysis of Results of Operations and its Annual Information Form for the fiscal year ended September 30, 2017 on SEDAR at [www.sedar.com](http://www.sedar.com). If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein and our current objectives or strategies may change. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

Calian · Head Office · 340 Legget Drive, Suite 101 · Ottawa · Ontario · Canada · K2K 1Y6  
Tel: 613.599.8600 · Fax: 613.599.8650 · General Info email: [info@calian.com](mailto:info@calian.com)

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at March 31, 2018 and September 30, 2017**  
**(Canadian dollars in thousands)**

	NOTES	March 31, 2018	September 30, 2017
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash		\$ 20,924	\$ 28,639
Accounts receivable		58,401	54,884
Work in process		24,673	19,490
Prepaid expenses		2,076	1,650
Derivative assets	8	115	123
Total current assets		106,189	104,786
<b>NON-CURRENT ASSETS</b>			
Equipment		7,103	6,503
Application software		776	766
Investments and loan receivable		250	530
Acquired intangible assets		4,989	5,586
Goodwill		15,383	15,383
Total non-current assets		28,501	28,768
<b>TOTAL ASSETS</b>		<b>\$ 134,690</b>	<b>\$ 133,554</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities		\$ 29,753	\$ 32,584
Unearned contract revenue		8,789	8,831
Derivative liabilities	8	115	360
Total current liabilities		38,657	41,775
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		1,715	2,292
Total non-current liabilities		1,715	2,292
<b>TOTAL LIABILITIES</b>		40,372	44,067
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital	5	28,010	26,240
Contributed surplus		840	541
Retained earnings		66,392	62,776
Accumulated other comprehensive loss		(924)	(70)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		94,318	89,487
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 134,690</b>	<b>\$ 133,554</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET PROFIT**  
**For the three and six-month periods ended March 31, 2018 and 2017**  
**(Canadian dollars in thousands, except per share data)**

	NOTES	Three months ended March 31, 2018	Three months ended March 31, 2017	Six months ended March 31, 2018	Six months ended March 31, 2017
Revenues		\$ 77,103	\$ 67,063	\$ 152,852	\$ 135,770
Cost of revenues		62,403	53,664	123,437	110,009
Gross profit		14,700	13,399	29,415	25,761
Selling and marketing		1,258	1,130	2,500	2,218
General and administration		6,259	5,080	12,188	10,164
Facilities		1,193	999	2,330	1,984
Depreciation		414	358	826	707
Amortization		299	242	598	485
Profit before interest income and income tax expense		5,277	5,590	10,973	10,203
Interest income		42	41	89	65
Profit before income tax expense		5,319	5,631	11,062	10,268
Income tax expense – current		1,696	1,414	3,392	2,644
Income tax expense – deferred		(239)	31	(263)	59
Total income tax expense		1,457	1,445	3,129	2,703
<b>NET PROFIT FOR THE PERIOD</b>		<b>\$ 3,862</b>	<b>\$ 4,186</b>	<b>\$ 7,933</b>	<b>\$ 7,565</b>
<b>NET PROFIT PER SHARE:</b>					
Basic	6	\$ 0.50	\$ 0.55	\$ 1.03	\$ 1.00
Diluted	6	\$ 0.50	\$ 0.55	\$ 1.02	\$ 1.00

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the three and six-month periods ended March 31, 2018 and 2017**  
**(Canadian dollars in thousands)**

NOTES	Three months ended March 31, 2018	Three months ended March 31, 2017	Six months ended March 31, 2018	Six months ended March 31, 2017
NET PROFIT FOR THE PERIOD	\$ 3,862	\$ 4,186	\$ 7,933	\$ 7,565
Other comprehensive income, net of tax				
Change in deferred gain or loss on derivatives designated as cash flow hedges, net of tax of \$257 and \$323 (2017 - \$17 and \$287)	(673)	161	(854)	814
Other comprehensive income, net of tax	(673)	161	(854)	814
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 3,189</b>	<b>\$ 4,347</b>	<b>\$ 7,079</b>	<b>\$ 8,379</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the three and six-month periods ended March 31, 2018 and 2017**  
**(Canadian dollars in thousands, except per share data)**

	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2017		\$ 26,240	\$ 541	\$ 62,776	\$ (70)	\$ 89,487
Total comprehensive income		-	-	7,933	(854)	7,079
Dividends (\$0.56 per share)		-	-	(4,317)	-	(4,317)
Issue of shares under the employee share purchase plan	5	551	-	-	-	551
Issue of shares under the employee share option plan	5	1,219	(160)	-	-	1,059
Share based compensation expense	5	-	459	-	-	459
<b>Balance March 31, 2018</b>		<b>\$ 28,010</b>	<b>\$ 840</b>	<b>\$ 66,392</b>	<b>\$ (924)</b>	<b>\$ 94,318</b>
	Notes	Issued capital	Contributed surplus	Retained earnings	Cash flow hedging reserve	Total
Balance October 1, 2016		\$ 22,820	\$ 472	\$ 55,906	\$ (877)	\$ 78,321
Total comprehensive income		-	-	7,565	814	8,379
Dividends (\$0.56 per share)		-	-	(4,229)	-	(4,229)
Issue of shares under the employee share purchase plan	5	476	-	-	-	476
Issue of shares under the employee share option plan	5	2,298	(114)	-	-	2,184
Share based compensation expense	5	-	21	-	-	21
<b>Balance March 31, 2017</b>		<b>\$ 25,594</b>	<b>\$ 379</b>	<b>\$ 59,242</b>	<b>\$ (63)</b>	<b>\$ 85,152</b>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**CALIAN GROUP LTD.**  
**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the six-month periods ended March 31, 2018 and 2017**  
**(Canadian dollars in thousands)**

NOTES	<u>Six-months ended March 31, 2018</u>	<u>Six-months ended March 31, 2017</u>
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Net profit for the period	\$ 7,933	\$ 7,565
Items not affecting cash:		
Interest income	(89)	(65)
Income tax expense	3,129	2,703
Employee share plans compensation expense	508	71
Depreciation and amortization	1,424	1,192
	<u>12,905</u>	<u>11,466</u>
Change in non-cash working capital		
Accounts receivable	(2,777)	9,534
Work in process	(5,183)	1,635
Prepaid expenses	(426)	(1,373)
Accounts payable and accrued liabilities	(3,589)	(864)
Unearned contract revenue	(42)	(1,768)
	<u>888</u>	<u>18,630</u>
Interest received	135	65
Income tax paid	(4,319)	(2,428)
	<u>(3,296)</u>	<u>16,267</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Issuance of shares	5	1,521
Dividends	(4,317)	(4,229)
	<u>(2,796)</u>	<u>(1,647)</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Investment	-	(100)
Business Acquisition	10	(166)
Equipment and application software	(1,433)	(638)
	<u>(1,603)</u>	<u>(738)</u>
<b>NET CASH INFLOW (OUTFLOW)</b>	<b>\$ (7,715)</b>	<b>\$ 13,882</b>
CASH, BEGINNING OF PERIOD	<u>28,639</u>	<u>16,761</u>
CASH, END OF PERIOD	<u>\$ 20,924</u>	<u>\$ 30,643</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**CALIAN GROUP LTD.**  
**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and six-month periods ended March 31, 2018 and 2017**  
**(Canadian dollars in thousands, except per share amounts)**  
**(Unaudited)**

**1. BASIS OF PREPARATION**

Calian Group Ltd. ("the Company") is incorporated under the Canada Business Corporations Act. The address of its registered office and principal place of business is 340 Legget Drive, Ottawa, Ontario K2K 1Y6. The Company's capabilities include the provision of business and technology services to industry and government in the health, IT services and training domains as well as the design, manufacturing and maintenance of complex systems to the communications and defence sectors.

These unaudited interim condensed consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standard Board ("IASB"). These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with the accounting policies the Company adopted in its annual consolidated financial statements for the year ended September 30, 2017 and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended September 30, 2017. These unaudited interim condensed consolidated financial statements do not include all of the information required in annual financial statements.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on May 9, 2018.

**2. FUTURE CHANGES IN ACCOUNTING POLICIES**

*IFRS 15 Revenue from Contracts with Customers*

In April 2014, the IASB released IFRS 15 – *Revenue from Contracts with Customers*. The Standard replaces IAS11 *Construction Contracts* and IAS18 *Revenue*, providing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue for the transfer of goods and services equal to an amount it expects to be entitled to receive for those goods and services. IFRS 15 is effective for the Company's annual periods beginning on October 1, 2018. The new guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application.

The Company has compared the current standard to the new standard, has identified the key differences and is currently completing its assessment of how these differences could potentially impact the Company. The Company has developed an implementation plan, which includes a review of changes to internal controls and processes to manage the new standard on a go forward basis as contracts are signed, and revenue is recognized. As well, the Company has not yet determined which transition method it will apply or whether it will use the optional exemptions or practical expedients available under the new standard. Management of the Company reports its findings and progress to the Audit Committee on a frequent basis. The Company will provide further updates as it progresses in its assessment.

*IFRS 9 Financial instruments*

IFRS 9 was issued by the IASB in November 2009 and October 2010, was amended in 2013 and finalized in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial instrument is measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of those financial instruments. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective with the Company's annual periods beginning on October 1, 2018.

The Company has compared the current standard to the new standard, has identified the key differences and is currently completing its assessment of how these differences could potentially impact the Company. Management of the Company reports its findings and progress to the Audit Committee on a frequent basis. The Company will provide further updates as it progresses in its assessment.



## 2. FUTURE CHANGES IN ACCOUNTING POLICIES (Continued)

### *IFRS 16 Leases*

In January 2016, the IASB released IFRS 16 *Leases* which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. IFRS 16 is effective with the Company's annual periods beginning on October 1, 2019. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

### Estimates:

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates.

There were no significant changes in estimates or approaches to determining estimates in the periods presented when compared to the estimates or approaches used the annual consolidated financial statements for the year ended September 30, 2017.

## 4. SEASONALITY

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. The Company's revenues and earnings have historically been subject to some quarterly seasonality due to the timing of vacation periods and statutory holidays.

## 5. ISSUED CAPITAL

### Employee Share Purchase Plan

During the three and six-month periods ended March 31, 2018 (2017), the Company issued 21,508 (31,214) shares under the Company's Employee Share Purchase Plan at an average price of \$21.50 (\$12.73) for cash of \$462 (\$398) and non-cash of \$89 (\$78).

### Stock options

The Company has an established stock option plan. Under the plan, eligible directors and employees are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted but in no circumstances below fair market value of the shares at the date of grant. As at March 31, 2018 (2017), 283,900 (241,100) options were outstanding of which 213,400 (221,100) are exercisable. During the period ended March 31, 2018 (2017), 96,600 (Nil) options were granted.

The weighted average fair value of options granted during the six month period ending March 31, 2018 was \$4.52 per option calculated using the Black-Scholes option pricing model. Where relevant, the expected life of the options was based on historical data for similar issuances and adjusted based on management's best estimate for the effects of non-transferability, exercises restrictions and behavioural considerations. Expected volatility is based on historical price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that options would be exercised on average 2 years after vesting. The following assumptions were used to determine the fair value of the options granted between October 1, 2017 and March 31, 2018:

	<u>Nov 2017</u>	<u>March 2018</u>
Grant date share price	\$ 34.58	\$31.54
Exercise price	\$ 34.58	\$31.54
Expected price volatility	24.0%	22.7%
Expected option life	4.25 yrs	4.25 yrs
Expected dividend yield	4.07%	3.54%
Risk-free interest rate	1.62%	2.09%
Forfeiture rate	0%	0%

**5. ISSUED CAPITAL (continued)****Restricted Stock Units**

The Company has established a restricted stock unit ("RSU") plan. Under the plan, eligible employees are granted the right to shares of common stock as remuneration for services rendered to the Company. RSU's are granted by the Board of Directors and at the date of the grant, the market value is used to determine the fair value of the units. The following table depicts the activity for the RSU's during the quarter ended March 31, 2018 (2017).

	Three-months ended		Six-months ended	
	March 31		March 31	
	2018	2017	2018	2017
<b>Beginning balance</b>	17,306	-	11,345	-
Vested	-	-	(3,741)	-
Cancelled	-	-	(150)	-
Issued	4,655	9,345	14,507	9,345
<b>Closing balance</b>	<b>21,961</b>	<b>9,345</b>	<b>21,961</b>	<b>9,345</b>

**6. NET PROFIT PER SHARE**

The diluted weighted average number of shares has been calculated as follows:

	Three months ended		Six months ended	
	March 31		March 31	
	2018	2017	2018	2017
Weighted average number of shares – basic	7,722,425	7,568,156	7,698,904	7,531,461
Addition to reflect the dilutive effect of employee stock options and RSU's	75,412	70,658	82,504	69,513
<b>Weighted average number of shares – diluted</b>	<b>7,797,837</b>	<b>7,638,814</b>	<b>7,781,408</b>	<b>7,600,974</b>

Options and RSU's that are anti-dilutive because the exercise price was greater than the average market price of the common shares are not included in the computation of diluted earnings per share. For the three month period ended March 31, 2018 (2017), 96,600 (Nil) options and 4,100 (9,345) RSU's were excluded from the above computation. For the six month period ending March 31, 2018 (2017), 96,600 (Nil) options and 13,952 (9,345) RSU's were excluded from the above computation. Profit for the period is the measure of profit or loss used to calculate Net profit per share.

**7. SEGMENTED INFORMATION**

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, regarding how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company operates in two reportable segments described below, defined by their primary type of service offering, namely Systems Engineering and Business and Technology Services.

- Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector.
- Business and Technology Services provides business and technology services and solutions to industry and government in the health, IT services, training, and engineering domains.

The Company evaluates performance and allocates resources based on earnings before interest income and income taxes. The accounting policies of the segments are the same as those described in Note 2 – Summary of significant accounting policies to the consolidated financial statements for the year ended September 30, 2017.

**7. SEGMENTED INFORMATION (Continued)**

<b>Three months ended March 31, 2018</b>	Business and		Corporate	Total
	Systems Engineering	Technology Services		
Revenues	\$ 19,780	\$ 57,323	\$ -	\$ 77,103
Profit before interest income and income tax expense	2,919	3,353	(995)	5,277
Interest income				42
Income tax expense				(1,457)
<b>Net profit for the period</b>				<b>\$ 3,862</b>

<b>Three months ended March 31, 2017</b>	Business and		Corporate	Total
	Systems Engineering	Technology Services		
Revenues	\$ 16,103	\$ 50,960	\$ -	\$ 67,063
Profit before interest income and income tax expense	3,351	3,005	(766)	5,590
Interest income				41
Income tax expense				(1,445)
<b>Net profit for the period</b>				<b>\$ 4,186</b>

<b>Six months ended March 31, 2018</b>	Business and		Corporate	Total
	Systems Engineering	Technology Services		
Revenues	\$ 41,098	\$ 111,754	\$ -	\$ 152,852
Profit before interest income and income tax expense	5,810	7,194	(2,031)	10,973
Interest income				89
Income tax expense				(3,129)
<b>Net profit for the period</b>				<b>\$ 7,933</b>
Equipment and intangible expenditures	\$ 1,235	\$ 198	\$ -	\$ 1,433
Total assets other than cash and goodwill	\$ 35,615	\$ 62,596	\$ 172	\$ 98,383
Goodwill	-	15,383	-	15,383
Cash	-	-	20,924	20,924
<b>Total assets</b>	<b>\$ 35,615</b>	<b>\$ 77,979</b>	<b>\$ 20,096</b>	<b>\$ 134,690</b>

<b>Six months ended March 31, 2017</b>	Business and		Corporate	Total
	Systems Engineering	Technology Services		
Revenues	\$ 36,240	\$ 99,530	\$ -	\$ 135,770
Profit before interest income and income tax expense	6,185	5,596	(1,578)	10,203
Interest income				65
Income tax expense				(2,703)
<b>Net profit for the period</b>				<b>\$ 7,565</b>
Equipment and intangible expenditures	\$ 340	\$ 298	\$ -	\$ 638

<b>As at September 30, 2017</b>	Business and		Corporate	Total
	Systems Engineering	Technology Services		
Total assets other than cash and goodwill	\$ 35,257	\$ 54,145	\$ 130	\$ 89,532
Goodwill	-	15,383	-	15,383
Cash	-	-	28,639	28,639
<b>Total assets</b>	<b>\$ 35,257</b>	<b>\$ 69,528</b>	<b>\$ 28,769</b>	<b>\$ 133,554</b>

## 8. HEDGING

### *Foreign currency risk related to contracts*

The Company is exposed to foreign currency exchange fluctuations on its cash balance, accounts receivable, accounts payable and accrued liabilities and future cash flows related to contracts denominated in a foreign currency. Future cash flows will be realized over the life of the contracts. The Company utilizes derivative financial instruments, principally in the form of forward exchange contracts, in the management of its foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts and therefore, the Company's policy is to hedge 100% of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company applies hedge accounting when appropriate documentation and effectiveness criteria are met.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm contractually related commitments on projects.

The Company also formally assesses, both at the hedge's inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge ineffectiveness has historically been insignificant.

The forward foreign exchange contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At March 31, 2018, the Company had the following forward foreign exchange contracts:

Type	Notional	Currency	Maturity	Equivalent Cdn. Dollars	Fair Value March 31, 2018
BUY	7,438	USD	April 2018	\$ 9,591	\$ 25
SELL	8,164	EURO	April 2018	12,954	89
SELL	28	GBP	April 2018	51	0
Derivative assets					\$ 115
SELL	29,979	USD	April 2018	\$ 37,366	\$ 99
BUY	1,468	EURO	April 2018	2,329	16
BUY	27	GBP	April 2018	49	0
Derivative liabilities					\$ 115

A 10% strengthening of the Canadian dollar against the following currencies at March 31, 2018 would have decreased other comprehensive income as related to the forward foreign exchange contracts by the amounts shown below.

	<b>March 31, 2018</b>
USD	\$ 2,525
EURO	966
	<b>\$ 3,491</b>

## 9. CONTINGENCIES

In the normal course of business, the Company is party to business and employee-related claims. The potential outcomes related to existing matters faced by the Company are not determinable at this time. The Company intends to defend these actions, and management believes that the resolution of these matters will not have a material adverse effect on the Company's financial condition.

## 10. ACQUISITION

### International Safety Research Inc. ("ISR")

On May 9, 2017, the Company acquired all of the outstanding shares of ISR for a purchase price of up to \$8,979. Of this amount, \$4,879 was paid on the date of closing, \$820 was placed in escrow and \$3,280 is payable contingently.

Under the contingent consideration arrangement, the Company is required to pay the former shareholders of ISR an additional \$1,640 and \$1,640 if ISR attains specified levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") for the years ending April 30, 2018 and 2019, respectively. With the current level of contracts signed by ISR and the ability to grow in its selected market segment, management believes that ISR can achieve its earn-out target in both years. Therefore, the amount of \$3,074 represents the estimated fair value of the Company's obligation at the acquisition date. ISR specializes in nuclear safety and emergency preparedness and response nationally and internationally. ISR was acquired to expand the Company's emergency preparedness service offering and will be reported as part of the Business and Technology Services operating segment.

On February 22, 2018, Calian acquired the remaining 51% of International Safety Research Europe B.V. ("ISRE") for \$166. The initial investment in ISRE was accounted for as an equity investment. With 100% ownership of ISRE, it is now fully consolidated.

## **Management Discussion and Analysis – March 31, 2018:**

(Canadian dollars in thousands, except per share data)

**This MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors of the Company. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. The Board of Directors is responsible for ensuring that we fulfill our responsibilities for financial reporting and is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee.**

### **IFRS and non-GAAP measures:**

**This MD&A contains both IFRS and non-GAAP measures. Non-GAAP measures are defined and reconciled to the most comparable IFRS measure.**

## **RESULTS OF OPERATIONS**

### **Revenues:**

For the second quarter of 2018, revenues were \$77,103 compared to \$67,063 reported for the same period in 2017 representing a 15% increase from the prior year. For the six-month period ending March 31, 2018 revenues were \$152,852 compared to \$135,769 for 2017, an increase of 13%.

Systems Engineering's (SED) revenues were \$19,780 in the quarter and \$41,098 on a year-to-date basis representing an 23% and 13% increase, respectively, when compared to the \$16,103 and \$36,240 recorded for the same periods in the previous year. All of SED's business units continue to be busy in a range of activities including RF system projects, product developments and contract manufacturing for commercial and defence customers. Product sales continue to provide solid recurring sales and interest continues to grow with some of our newer products with new customers entering the mix. Additional signings in defence contract manufacturing helped to grow our backlog in Test, Aerospace and Defence. The increased pool of expert labor resources enhances SED's potential for higher margins in the near-term and will allow it to take on a larger number of projects requiring SED's expertise in the areas of communication solutions.

Business and Technology Services (BTS) revenues were \$57,323 in the quarter and \$111,754 on a year-to-date basis representing a 13% and 12% increase, respectively, when compared to the \$50,960 and \$99,530 recorded for the same periods in the previous year. The revenue increase for the quarter and year-to-date was achieved through a combination of the inclusion of the ISR acquisition and organic growth, specifically in the health and training service lines with increased demand on mainstay contracts.

Management expects that the marketplace for the near term will continue to be competitive and the timing of new contract awards is always subject to delay. Our backlog provides a strong level of revenue assurance on existing contracts and new opportunities continue to arise. Although we continue to focus our efforts on the diversification of our customer base outside of government, the nature and extent of future government spending remain uncertain and therefore, future revenues in this sector will ultimately be determined by customer demand on existing contracts as well as the timing of future contract awards.

### **Gross margin**

Gross margin was 19.1% for the second quarter of 2018 and 19.2% on a year-to-date basis compared to the 20.0% and 19.0% recorded for the same periods in the previous year.

Gross margin in Systems Engineering was 25.2% in the second quarter of 2018 and 24.5% on a year-to-date basis compared to the 32.7% and 27.5% recorded for the same periods in the previous year. Gross margin in the quarter reflects the dominance of the lower margin RF system projects compared to the prior year. These RF system projects provide SED with larger revenues and, when combined with other projects having high labor sales, results in good utilization of its manufacturing line and engineering resources. The gross margin in 2018 was also impacted by newer customer driven development projects that until fully developed will result in lower realized margins and the uptake of new resources that in the short-term result in lower utilization due to training and ramp-up. Although the mix of revenues plays a significant role in the margin ultimately realized, product sales and excellent project execution helped the division maintain a solid level of margins.

Gross margin in Business and Technology Services was 17.0% and 17.3%, respectively, for the three and six month periods ending March 31, 2018 compared to the 15.9% recorded for the same periods in the previous year. The inclusion of the ISR acquisition accounts for approximately 0.9% of the 1.2% improvement with the remaining uplift being attributed to solid execution on existing contracts. The division continues to evolve its service offering with a goal to increase gross margins realized in the longer term.

Because of the significant difference in gross margin between each of the two divisions, the overall gross margin of the Company is dependent on the relative level of revenue generated from each division. Management will continue to focus on operational execution and diligent negotiation of supplier costs in order to maximize margins. However, the competitive landscape is expected to maintain the pressure on margins in both divisions. The volatility of the Canadian dollar is always an influencing factor for margins on new work in the SED division when denominated in foreign currencies.

**Operating expenses:**

For the six-month period ended March 31, 2018, selling and marketing, general and administration and facilities totalled \$17,018 or 11.1% of revenues compared to \$14,366 or 10.6% of revenues reported in 2018. Operating costs increased over the prior year due to the inclusion of operating costs related to the ISR acquisition, continued focus on selling and marketing efforts and service line evolution capabilities, improvements and expansion of our facilities, the expensing of share-based compensation in addition to certain one-time costs. Management will continue to challenge discretionary spending; however, continued prudent investments are required to support the evolution of the Company's service lines.

**EBITDA<sup>(1)</sup>:**

EBITDA<sup>(1)</sup> for the second quarter was \$5,990 compared to \$6,190 in the same quarter of the previous year. For the six-month period ended March 31, 2018, EBITDA<sup>(1)</sup> was \$12,397 compared to \$11,395 in the same period of the previous year.

**Depreciation:**

For the six-month period ended March 31, 2018, depreciation was \$826 which is slightly higher than the \$707 recorded in fiscal 2017.

**Amortization of intangibles:**

For the six-month period ended March 31, 2018, amortization of intangibles increased slightly to \$598 compared to \$485 in the same period of fiscal 2017.

**Income taxes:**

The provision for income taxes was \$3,129 or 28.3% of earnings before tax compared to \$2,703 in 2017 or 26.3% of earnings before tax. The difference in effective tax rates is primarily due to the increase in share based compensation which is not tax deductible. The effective tax rate for 2018, prior to considering the impact of non-taxable transactions and adjustments to reflect actual tax provision as filed, is expected to be approximately 27.0%.

**Net profit:**

As a result of the foregoing, in the second quarter of 2018 the Company recorded net profit of \$3,862 or \$0.50 per share basic and diluted, compared to \$4,186 or \$0.55 per share basic and diluted in the same quarter of the prior year. For the six-month period ended March 31, 2018 the Company recorded net profit of \$7,933 or \$1.03 per share basic and \$1.02 per share diluted, compared to \$7,565 or \$1.00 per share basic and diluted in the same period of the prior year.

<sup>(1)</sup> See reconciliation regarding non-GAAP measures below

**Reconciliation of non-GAAP measures to most comparable IFRS measures:**

Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures, provides users of the Company's financial reports with enhanced understanding of the Company's results and related trends and increases transparency and clarity into the core results of the business. EBITDA, adjusted net profit and adjusted net profit per share exclude items that do not reflect, in our opinion, the Company's core performance and helps users of our MD&A to better analyze our results, enabling comparability of our results from one period to another.

These non-GAAP measures are mainly derived from the interim consolidated financial statements, but do not have a standardized meaning prescribed by IFRS; therefore, others using these terms may calculate them differently. The exclusion of certain items from non-GAAP performance measures does not imply that these are necessarily non-recurring. From time to time, we may exclude additional items if we believe doing so would result in a more transparent and comparable disclosure. Other entities may define the above measures differently than we do. In those cases, it may be difficult to use similarly named non-GAAP measures of other entities to compare performance of those entities to the Company's performance.

Reconciliation of EBITDA	Second Quarter 2018	Second Quarter 2017	YTD 2018	YTD 2017
Profit before interest income and income tax expense	\$ 5,277	\$ 5,590	\$ 10,973	\$ 10,203
Depreciation	414	358	826	707
Amortization	299	242	598	485
EBITDA	\$ 5,990	\$ 6,190	\$ 12,397	\$ 11,395

### **BACKLOG**

The Company's backlog at March 31, 2018 was \$1,165 million with terms extended to fiscal 2030. This compares to \$1,261 million reported at September 30, 2017. Contracted Backlog represents maximum potential revenues remaining to be earned on signed contracts, whereas Option Renewals represent customers' options to further extend existing contracts under similar terms and conditions.

Most fee for service contracts provide the customer with the ability to adjust the timing and level of effort throughout the contract life and as such the amount actually realized could be materially different from the original contract value. The following table represents management's best estimate of the backlog realization for 2018, 2019 and beyond based on management's current visibility into customers' existing requirements. Management's estimate of the realizable portion (current utilization rates and known customer requirements) is less than the total value of signed contracts and related options by approximately \$89 million. The Company's policy is to reduce the reported contractual backlog once it receives confirmation from the customer that indicates the utilization of the full contract value may not materialize.

(dollars in millions)	<u>Fiscal</u> <u>2018</u>	<u>Fiscal 2019</u>	<u>Beyond</u> <u>2019</u>	<u>Estimated</u> <u>realizable</u> <u>portion of</u> <u>Backlog</u>	<u>Excess over</u> <u>estimated</u> <u>realizable</u> <u>portion</u>	<u>TOTAL</u>
Contracted Backlog	\$ 117	\$ 134	\$ 161	\$ 412	\$ 67	\$ 479
Option Renewals	3	28	633	664	22	686
<b>TOTAL</b>	<b>\$ 120</b>	<b>\$ 162</b>	<b>\$ 794</b>	<b>\$ 1,076</b>	<b>\$ 89</b>	<b>\$ 1,165</b>
Business and Technology Services	\$ 93	\$ 146	\$ 788	\$ 1,026	\$ 89	\$ 1,115
Systems Engineering	27	16	6	50	-	50
<b>TOTAL</b>	<b>\$ 120</b>	<b>\$ 162</b>	<b>\$ 794</b>	<b>\$ 1,076</b>	<b>\$ 89</b>	<b>\$ 1,165</b>

### **FINANCIAL CONDITION AND CASHFLOWS**

#### **Operating activities:**

Cash outflows from operating activities for the period ended March 31, 2018 were \$3,296 compared to cash inflows of \$16,267 in 2017. Cash flows have been negatively impacted by the increase in accounts receivable, work in process and pay down of accounts payable commensurate with the status of large projects at SED. The aging of the accounts receivable remain in excellent health. These variations in cash flows are not considered unusual and reflect normal working capital fluctuations associated with the ebbs and flows of the business. The market for the Systems Engineering Division is characterized by contracts with billings tied to milestones achieved, which often results in significant working capital requirements. Conversely, given the nature of this business, it is sometimes possible to negotiate advance payments on contracts. Such advance payments give rise to unearned revenue that will be realized as revenue over the course of the contract. As at March 31, 2018, the Company's total unearned revenue amounted to \$8,789 compared to \$8,831 at September 30, 2017.

#### **Financing activities:**

During the six-month periods ended March 31, 2018 (2017), the Company paid quarterly dividends of \$0.56 (\$0.56) per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.



**Investing activities:**

During the six-month period ended March 31, 2018, the Company invested \$1,433 in capital assets compared to \$638 in the prior period. The increase is attributable to additional manufacturing equipment purchased at SED.

During the six-month period ended March 31, 2018, Calian also acquired the remaining 51% of ISRE in the period ended March 31, 2018 for \$166.

**Capital resources:**

At March 31, 2018 the Company had a short-term credit facility of \$40,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. An amount of \$50 was used to issue a letter of credit to meet customer contractual requirements. Management believes that Calian has sufficient cash resources to continue to finance its working capital requirements and pay a quarterly dividend.

**ADOPTION OF NEW ACCOUNTING RULES AND IMPACT ON FINANCIAL RESULTS**

The Company did not adopt any new accounting policies this quarter.

**SELECTED QUARTERLY FINANCIAL DATA**

	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16
REVENUES	\$ 77,103	\$ 75,549	\$ 72,321	\$ 67,332	\$ 67,063	\$ 68,707	\$ 68,758	\$ 73,196
EBITDA <sup>(1)</sup>	\$ 5,990	\$ 6,407	\$ 6,572	\$ 5,504	\$ 6,190	\$ 5,205	\$ 5,318	\$ 6,114
Net profit	\$ 3,862	\$ 4,071	\$ 4,327	\$ 3,498	\$ 4,186	\$ 3,379	\$ 3,380	\$ 3,888
Net profit per share								
Basic	\$ 0.50	\$ 0.53	\$ 0.57	\$ 0.46	\$ 0.55	\$ 0.45	\$ 0.45	\$ 0.52
Diluted	\$ 0.50	\$ 0.52	\$ 0.56	\$ 0.45	\$ 0.55	\$ 0.45	\$ 0.45	\$ 0.52

**SEASONALITY**

The Company's operations are subject to some quarterly seasonality due to the timing of vacation periods and statutory holidays. Typically the Company's first and last quarter will be negatively impacted as a result of the Christmas season and summer vacation period. During these periods, the Company can only invoice for work performed and is also required to pay for statutory holidays. This results in reduced levels of revenues and in a drop in gross margins. This seasonality may not be apparent in the overall results of the Company depending on the impact of the realized sales mix of its various projects.

**OUTLOOK**

Management is confident that the Company is well positioned for sustained growth in the long term. The Company's strong contract backlog provides a solid base for the realization of future revenues. Leveraging the Company's diverse services offerings; the Company operates in global and domestic markets that will continue to require the services that the Company offers. To ensure the Company is positioned to respond to market requirements, the Company will focus on the execution of its four pillar growth strategy:

- Customer retention: through continued delivery excellence, maintain a valued relationship with current customer base;
- Customer diversification: through increasing the percentage of its revenues derived from new business in adjacent and non-government markets, balance customer revenue into numerous global and domestic sectors;
- Service Line Evolution: continue investment in service offerings to increase differentiation and improve gross margin attainment;
- Continuous Improvement: leverage innovation to improve how the company operates with a goal to streamline processes and provide for a scalable back office support capability.

The company has completed five acquisitions in the past 5 years, and will proactively look for companies that can accelerate its growth strategy with a focus on customer diversification and service line evolution.

The SED Division has been working within a sustainable satellite sector and is expecting opportunities to continue to arise as systems adopting the latest technologies will be required by customers wishing to maintain and improve their service offerings and react to an increasing demand for bandwidth. SED continues to invest in communications products, software development and manufacturing equipment to strengthen its competitive position. However in the short-term, activity levels in custom manufacturing will continue to be directly dependent upon SED's customers' requirements and continuing volatility in orders is anticipated as both government and commercial customers continue to re-examine their traditional spending patterns. The delays, deferrals and cancellations of DND capital procurements have created intense competition for available manufacturing work. Finally, changes in the relative value of the Canadian dollar may negatively or positively impact the Systems Engineering Division's competitiveness on projects denominated in foreign currencies.

The BTS Division's professional services are adaptable to many different markets. Currently, its strength lies in providing professional services, solutions, and delivery services across Canada with a significant portion of this work currently with the Department of National Defence. Recently the division has been successful in diversifying its customer base and evolving its service offerings. As an example, the division now provides direct to customer health services through the operation of managed medical clinics as well as onsite health practitioners in the oil and gas sector. Management believes that for the long term, the public and private sector will continue to require health, IT, training and engineering services from private enterprise to achieve their business outcomes. Looking at the current outlook, the federal government continues to spend on priority programs and while there is general uncertainty as to the extent of demand from this customer, at least in the short term spending seems to have stabilized. With recent investments in sales, marketing, acquisitions and success in new markets outside of the federal government, the division is better positioned to manage through any potential government spending downturns. Recent acquisitions have also bolstered the division's performance and it is expected that overall, the acquired companies will continue to meet and exceed the financial targets established as part of the acquisitions.

### **GUIDANCE**

Management continues to focus on its key strategic initiatives. Traditional markets in which Calian operates are stable and management expects organic revenue and earnings growth in most or all of its service lines through the successful execution of our growth strategy. However, we must caution that revenues realized are ultimately dependent on the extent and timing of future contract awards as well as customer utilization of existing contracting vehicles. Based on currently available information and our assessment of the marketplace, we expect revenues for fiscal 2018 to be in the range of \$290 million to \$310 million, net profit in the range of \$1.90 to \$2.20 per share.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

During the most recent interim quarter ended March 31, 2018, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **FORWARD-LOOKING STATEMENT**

Certain information included in this press release is forward-looking and is subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. Factors which could cause results or events to differ from current expectations include, among other things: the impact of price competition; the dependence on new product development; the impact of rapid technological and market change; the ability of Calian to integrate the operations and technologies of acquired businesses in an effective manner; general industry and market conditions and growth rates; international growth and global economic conditions, particularly in emerging markets and including interest rate and currency exchange rate fluctuations; and the impact of consolidations in the business services industry. Additional risks and uncertainties affecting Calian can be found in Management's Discussion and Analysis of Results of Operations and its Annual Information Form for the fiscal year ended September 30, 2017 on SEDAR at [www.sedar.com](http://www.sedar.com). If any of these risks or uncertainties were to materialize, or if the factors and assumptions underlying the forward-looking information were to prove incorrect, actual results could vary materially from those that are expressed or implied by the forward-looking information contained herein and our current objectives or strategies may change. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

**Date: May 9, 2018**